COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2927-03
Bill No.: Perfected HCS for HB 1143
Subject: Economic Development; Taxation and Revenue.
Type: Original
Date: April 18, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(Minimal)	($138,000) to $5,162,000	($138,000) to $5,162,000
Total Estimated Net Effect on All State Funds	**(Minimal)**	**($138,000) to $5,162,000**	**($138,000) to $5,162,000**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** did not respond to our request for fiscal impact for the perfected version of this proposal!

In response to a previous version, DED stated this proposal appears to have no fiscal impact on DED. It only redistributes credits that already exist.

Officials from the **Department of Revenue (DOR)** do not anticipate a significant increase in the number of new credits filed as a result of this proposal. Therefore, DOR did not request additional FTE at this time. However, if DOR is incorrect in this assumption, they assume they will need one Temporary Tax Season Employee for every 75,000 additional credits, one Tax Processing Tech I for every 30,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. DOR will monitor the credit and any FTE needed will be requested during the normal budget process.

Officials from the **Department of Agriculture** state this proposal would not fiscally impact their agency.

Oversight assumes the changes made to the Neighborhood Preservation tax credit program will not change the annual cap of $16 million, or $8 million each for the qualifying areas and the eligible areas. According to DED, in calendar year 2001, the entire pot of $8 million in credits for eligible areas was claimed while only $2.6 million of the $8 million in credits for qualifying areas was claimed. The fiscal note prepared for the enabling legislation for this program reflected a loss of state funds of $0 to ($16 million) annually starting in FY 2001. Therefore, while this proposal may result in an increased utilization of the Neighborhood Preservation tax credit program, Oversight assumes the cap on the program has not changed from the $16 million reflected in the fiscal note for SB 20 in 1999, and therefore, assume no additional fiscal impact from the changes in this program.

Oversight assumes the proposal also changes the definition of “distressed communities” in Section 135.530. This definition is used by various programs under DED, including CAPCO, Tax Credit for Contributions to Innovation Centers, Credit for New or Expanded Business Facilities as well as others. While some of these programs are capped, the New or Expanding Business Facility tax credit is not capped. A business in a newly created distressed community would be allowed a larger tax credit for expanding an existing business or creating a new business facility than they would if they were not in the newly defined distressed community. Companies not in a distressed communities are allowed the credit, but at a lower per-employee and per-capital rate.

ASSUMPTION (continued)

With DED’s assumption from a previous version of this bill that changing the definition of distressed communities would have no impact (or certainly negligible) on the amount of tax credits utilized, **Oversight** assumes this proposal would have a minimal fiscal impact on the General Revenue Fund.

Oversight assumes this proposal may result in the increased utilization of some of the various tax credit programs that use the definition of distressed communities, however, many of the programs are capped, therefore, Oversight has already reflected the potential losses to the General Revenue fund in previous fiscal notes.

Interest payments for use of carryback of tax credits;

Officials from the **Department of Revenue (DOR)** assume this legislation prevents interest on refunds due to tax credit carrybacks. This will have no administrative impact to DOR. However, DOR estimates that this proposal will result in interest savings of up to $5.3 million per year (an estimated $2.2 million for individual income tax and $3.1 million for corporation income tax.)

In response to similar legislation from this year, **DED** officials state this bill should have no impact on DED. The bill prevents carried back tax credits from accruing interest except from the date they were authorized and forward.

Enterprise Zone in Wright County;

In response to similar legislation from this year, officials from the **Department of Economic Development (DED)** stated the bill authorizes a new enterprise zone in Wright County. DED does not feel the bill has enough immediate impact on DED to warrant additional personnel or expenditures. At some point in the future, enough additional enterprise zone credits could be issued that would require an additional person. At that time, DED would request additional funding.

DED states the average cost for each enterprise zone in a rural area (not located in a Standard Metropolitan Area such as Kansas City, St. Louis, St. Joseph, Springfield, or Joplin) has been revised based on a more detailed review of information available. The cost of an enterprise zone in a rural area is now estimated to be $138,000 per year. The cost of an enterprise zone includes the costs of EZ tax credits, refunds, and income modifications (modification times tax rate to convert to dollar benefit) for a year. These figures are an average so some zones will cost more and some will cost less. It is not possible to predict anything more than the averages used as the cost until the zone has been created and mapped.

ASSUMPTION (continued)

DED estimated a loss to General Revenue of $138,000 each year, starting in FY 2004.

In response to several similar proposals from this year, officials from the **Department of Revenue (DOR)** stated they do not anticipate a significant increase in the number of new credits filed. Therefore, DOR will not request additional FTE at this time. However, if DOR is incorrect in this assumption, they assumed they will need one Temporary Tax Season Employee for every 75,000 additional credits, one Tax Processing Tech I for every 30,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. Any FTE needed will be requested during the normal budget process.

In response to similar legislation from this year, officials from the **Department of Insurance (INS)** stated the designation of an additional enterprise zone will increase the number of areas that receive enterprise zone tax credits. INS is unable to project how much in additional tax credits may be generated and what effect it will have on premium tax collections. Premium taxes are split between GR and the County Foreign Insurance fund which is later distributed to school districts. Fiscal impact will be an unknown loss of revenue to GR and the County Foreign Insurance fund.

In response to similar legislation from this year (SB 856), officials from **Wright County** stated this proposal would have no fiscal impact on their county. However, in response to a similar proposal from last year, Wright County officials stated that if they receive an Enterprise Zone designation, tax
incentives are provided to businesses based on the number of new jobs and amount of new investment created at the qualifying facility. There is a possible income exemption, partial tax credit refund, and property tax abatement on improvements to real property provided certain requirements are met. These incentives will only apply to new or expanding businesses. The property taxes currently paid by existing businesses and industry will not be affected. Thus property tax revenue will not be negatively impacted but will increase after the enterprise zone expires.

Oversight assumes the local taxing and governing authorities may grant an exemption (in whole or in part) of property taxes to new or expanding businesses after holding the required public hearings on the matter, therefore, has estimated the local impact as zero. The fiscal note does not reflect any indirect positive result that may occur because of the tax credits issued.

This proposal may impact Total State Revenues.

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005

GENERAL REVENUE FUND

Income - General Revenue Fund

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
Elimination of interest on carrybacks of tax credits	$0	$0 to $5,300,000	$0 to $5,300,000
Loss - Expansion of definition of "distressed community"	(Minimal)	(Minimal)	(Minimal)
Loss - Enterprise Zone in Wright Co.	$0	($138,000)	($138,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**(Minimal)**	**($138,000) to $5,162,000**	**($138,000) to $5,162,000**

FISCAL IMPACT - Local Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit may be fiscally impacted by this legislation.

DESCRIPTION

This proposal makes several changes to the Neighborhood Preservation tax credit program within the Department of Economic Development. The proposal expands the definitions of "eligible residence", "new residence", "qualifying residence" and "project" used in the tax credit for rehabilitation and construction of residences in distressed communities and census block. The proposal also increases the eligible tax credit from 15 to 20 percent of costs incurred for a new residence.

Under current law, of the $16 million in community improvement tax credits allowed, $8 million are to be allocated for "eligible residence" programs and $8 million for "qualifying residence" programs. The proposal states that if, by October 1 of the calendar year, the Director of the Department of Economic

DESCRIPTION (continued)

Development has issued all $8 million of the credits allowed for one of these programs and not the entire $8 million allowance for the other program, the director is required to reallocate 70%

of any unused tax credits from the program which has not reached its $8 million cap to the one which has.

The reallocated credits will be given to taxpayers who have applied for, but have not received, tax credits in that same year and who are engaged in projects in the area where the tax credit cap has been met for that same year. The maximum reallocated tax credit for any project cannot exceed $500,000.

The proposal also adds that projects involving the new construction, rehabilitation or substantial rehabilitation of more than one residence qualifying for the tax credit for rehabilitation and construction of residences in distressed communities may be submitted with one application. Also tax certificates may be approved upon completion for each individual residence rather than delaying until substantial completion of the entire project.

The proposal also changes the definition of a "distressed community".

This proposal also prohibits a carried-back tax credit from accruing interest prior to the close of the taxable year in which the credit was authorized.

This proposal also designates Wright County as an enterprise zone.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Department of Agriculture
Department of Insurance
Wright County

Mickey Wilson

Mickey Wilson, CPA
Acting Director
April 18, 2002